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23 SEP 1981

MEMORANDUM FOR: Chief, Audit Staff

VIA: Inspector General

FROM: James N. Glerum  
Director of Personnel

SUBJECT: Report of Audit, Government Employees Health  
Association, Inc., for the Period 1 January 1980 -  
31 December 1980

1. This memorandum describes actions taken in response to your four recommendations in subject report.

2. Recommendation #1

"That the GEHA Board of Directors reevaluate and document GEHA's investment objectives."

Recommendation #2

"That the GEHA Board of Directors consider whether dealing through other investment broker(s), or adopting an alternate means of handling investments, might be more advantageous than current arrangements, and that it document both the decisions, and the basis on which they are made."

Recommendation #3

"That the GEHA Board of Directors establish a written policy concerning the holding of fixed income securities which have declined in current market value but are yielding a high rate of return, and that the policy determined be issued as mandatory guidance to any entity executing investment decisions on behalf of GEHA."

While these recommendations are not yet fully resolved, the GEHA Board of Directors has been actively involved in the resolution of these issues. The following is a brief synopsis of Board actions taken to date:

a. An ad hoc Investment Committee was appointed on 20 March 1981 by the GEHA Board to determine the appropriate action to be taken.

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b. On 20 April 1981 [ ] was engaged by GEHA as an independent contractor to conduct an indepth review of the GEHA investment portfolio.

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c. Extensive research regarding bond transactions for 1980 through May of 1981 was prepared by the GEHA staff for [ ] analyses.

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d. A report analyzing the investment portfolio was prepared by [ ] for an initial review by the GEHA Investment Committee. This was completed in May 1981 and was followed by discussions with the Investment Committee and [ ] on 1 June 1981.

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e. Messrs. Hurford and Howard of BEA were invited to Headquarters on 17 June 1981 to present their investment strategy in managing the GEHA portfolio to the Investment Committee.

f. A meeting of the Investment Committee was held on 14 August 1981 to discuss further courses of action in resolving the BEA issues.

3. Recommendation #4

"Establish records to assure that bond interest is received when due."

Internal procedures have been established by Chief, Insurance Branch with GEHA's Custodial Account Representatives at American Security Bank to provide interest due information with each bond transaction. This information will be maintained by accounting technicians in the Insurance Branch to assure that interest payments on investments are received when due.

4. In conclusion, I wish to take this opportunity to commend the audit team for their efforts on behalf of GEHA. I am told that the audit was accomplished in a most professional manner and with a minimum of distractions. Please convey my thanks to your staff for a job well done.

7s/ James N. Glerum

James N. Glerum

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Approved For Release 2005/07/12 : CIA-RDP86-00964R000200070027-0